

NACM Credit Manager's Index

Report for October 2006

Issued November 1, 2006
 National Association of Credit Management
 8840 Columbia 100 Parkway
 Columbia, MD 21045-2158

Combined Sectors

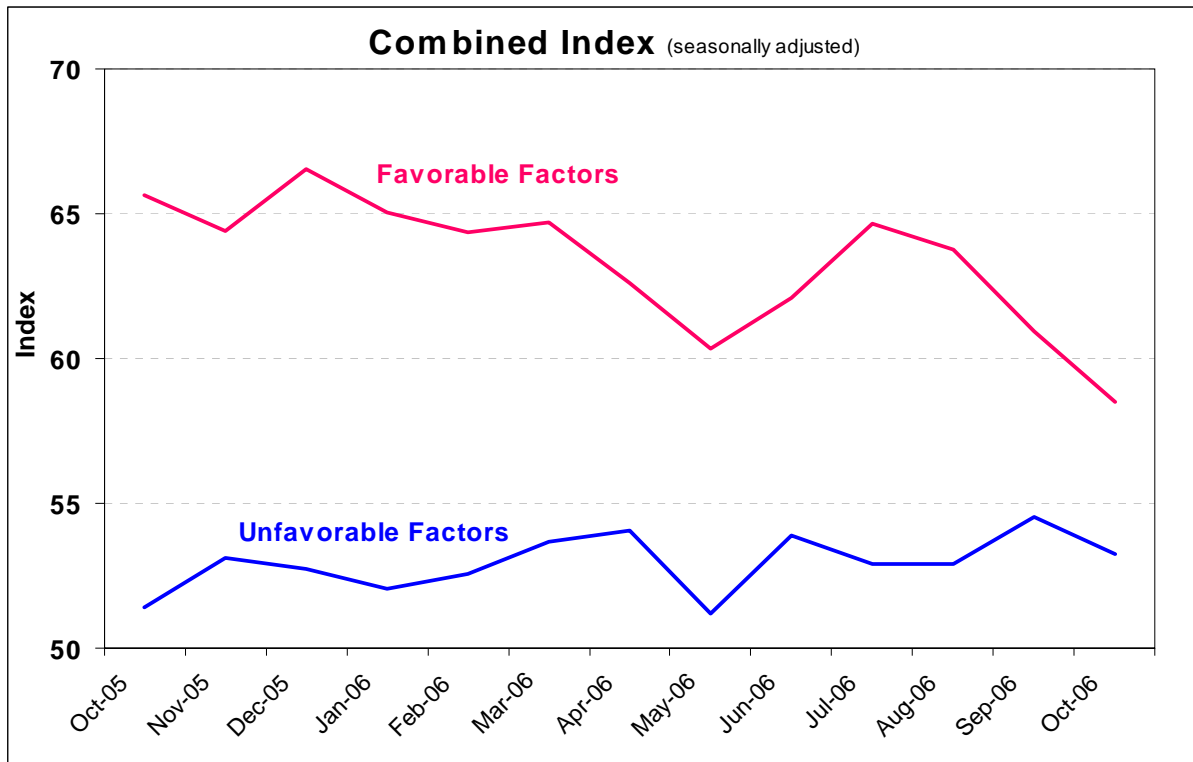
The seasonally adjusted Credit Manager's Index (CMI) fell 1.8% points in October, reflecting a widespread deterioration as eight of the 10 components fell. While all but one component remain above the 50% level indicating economic expansion, it was the third consecutive drop for the combined index. "In addition, the drop was led by a sharp fall in the sales component of 7.2% points, an unsettling number since a decrease in sales can suggest a deterioration in future business conditions as well," said Dan North, Chief Economist with credit insurer Euler Hermes ACI. "The credit managers in the survey are confirming what other macroeconomic data suggest; the effects of a tightening monetary policy and a dismal housing market are taking a toll on the health of the economy."

See page 4 of this report for information about the methodology and factors used to measure economic performance.

Combined Manufacturing and Service Sectors (seasonally adjusted)

	Oct '05	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	70.1	65.7	70.9	66.1	64.6	65.8	63.3	61.5	65.4	67.8	62.8	63.5	56.3
New credit applications	59.4	57.4	62.0	63.6	60.3	60.9	57.4	55.7	55.7	59.0	62.5	57.9	56.2
Dollar collections	62.9	68.1	63.6	63.6	66.2	64.6	63.5	58.6	62.5	61.9	63.3	60.0	58.3
Amount of credit extended	70.2	66.4	69.6	66.9	66.3	67.4	66.2	65.5	64.8	69.9	66.4	62.4	63.2
Index of favorable factors	65.6	64.4	66.5	65.0	64.3	64.7	62.6	60.3	62.1	64.7	63.8	60.9	58.5
Rejection of credit applications	54.5	52.7	50.8	50.7	53.1	53.9	53.8	50.6	51.5	52.6	53.6	53.3	54.8
Accounts placed for collection	54.1	53.3	53.8	52.6	50.3	52.7	52.0	50.5	55.2	52.0	50.1	55.0	53.1
Disputes	48.4	52.6	46.5	49.8	48.4	50.0	52.4	49.3	51.1	51.1	50.4	52.3	49.7
Dollar amount beyond terms	53.9	55.9	52.9	51.1	52.2	54.6	53.5	48.5	56.5	52.2	51.3	55.8	52.2
Dollar amount of customer deductions	50.2	50.2	50.4	50.4	50.2	51.2	51.8	49.0	49.7	50.5	51.7	50.6	50.5
Filings for bankruptcies	47.3	54.1	61.9	57.8	61.3	59.7	60.8	59.2	59.2	59.1	60.5	60.2	59.1
Index of unfavorable factors	51.4	53.1	52.7	52.1	52.6	53.7	54.0	51.2	53.9	52.9	52.9	54.5	53.2
NACM CMI	57.1	57.7	58.3	57.2	57.3	58.1	57.5	54.9	57.2	57.6	57.3	57.1	55.3
ISM Combined Sectors Index*	58.7	58.3	58.3	55.8	58.4	57.9	60.2	57.3	55.4	54.8	55.8	52.9	N/A

* Note: The ISM Combined Sectors Index has been constructed as an equally weighted index of the manufacturing sector's PMI number and the non-manufacturing sector's business activity index.

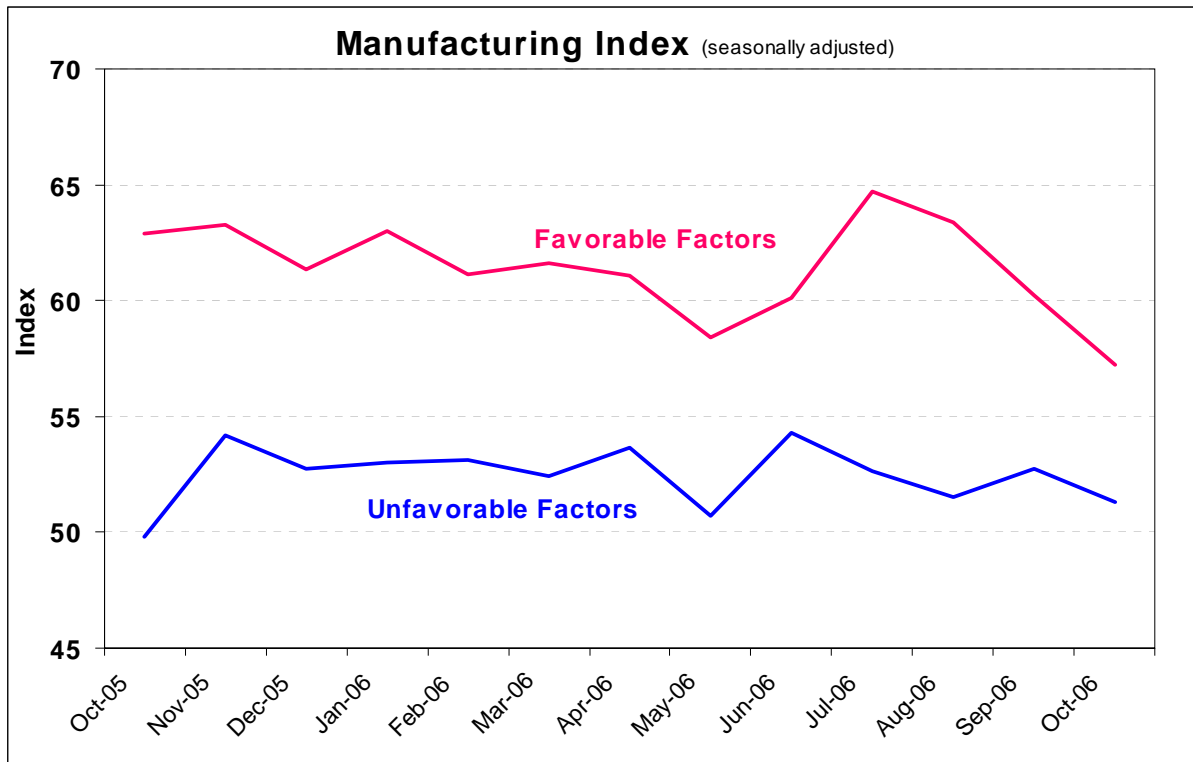


Manufacturing Sector

North noted that the manufacturing sector fell for the third straight month, declining 2.1% points. The decline was led by sharp drops in the sales component of 6.3% points, and in dollar collections of 6.2% points. "Such declines in favorable factors point to the possibility of a continued slowing," he commented. "Survey respondents said 'domestic sales are slower' and 'we have seen a slowing in the economy and sales orders'."

Manufacturing Sector (seasonally adjusted)

	Oct '05	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	68.1	63.1	64.0	64.0	61.3	62.7	62.4	59.4	63.9	69.7	62.0	62.0	55.7
New credit applications	55.2	56.5	56.1	61.7	55.0	59.7	54.9	53.5	55.0	59.1	63.4	57.4	55.8
Dollar collections	59.7	67.8	61.7	62.3	66.2	59.3	63.4	56.5	60.5	59.4	60.1	61.0	54.8
Amount of credit extended	68.6	65.7	63.6	64.0	62.1	64.9	63.6	64.4	61.1	70.7	67.9	60.6	62.6
Index of favorable factors	62.9	63.3	61.4	63.0	61.1	61.6	61.1	58.4	60.1	64.7	63.4	60.2	57.2
Rejection of credit applications	54.9	53.6	52.1	51.8	53.8	55.4	52.2	47.5	51.6	52.8	53.2	52.5	55.1
Accounts placed for collection	52.5	56.7	55.8	52.0	49.4	51.3	52.0	51.7	54.0	51.7	48.5	54.8	50.6
Disputes	46.0	52.4	44.1	50.5	49.0	45.7	52.4	48.4	52.4	49.9	47.8	48.7	48.2
Dollar amount beyond terms	51.7	57.7	53.3	56.0	55.2	54.5	52.3	49.4	59.0	53.9	48.7	54.8	49.5
Dollar amount of customer deductions	47.1	49.3	49.3	50.8	51.4	49.0	52.7	49.0	49.4	48.6	51.7	46.4	48.2
Filings for bankruptcies	46.9	55.5	61.9	56.9	60.0	58.6	60.4	58.2	59.3	58.8	59.3	59.4	56.3
Index of unfavorable factors	49.8	54.2	52.7	53.0	53.1	52.4	53.7	50.7	54.3	52.6	51.5	52.8	51.3
NACM Manufacturing CMI	55.1	57.8	56.2	57.0	56.3	56.1	56.6	53.8	56.6	57.5	56.3	55.8	53.7
ISM Manufacturing PMI	58.1	57.3	55.6	54.8	56.7	55.2	57.3	54.4	53.8	54.7	54.5	52.9	N/A

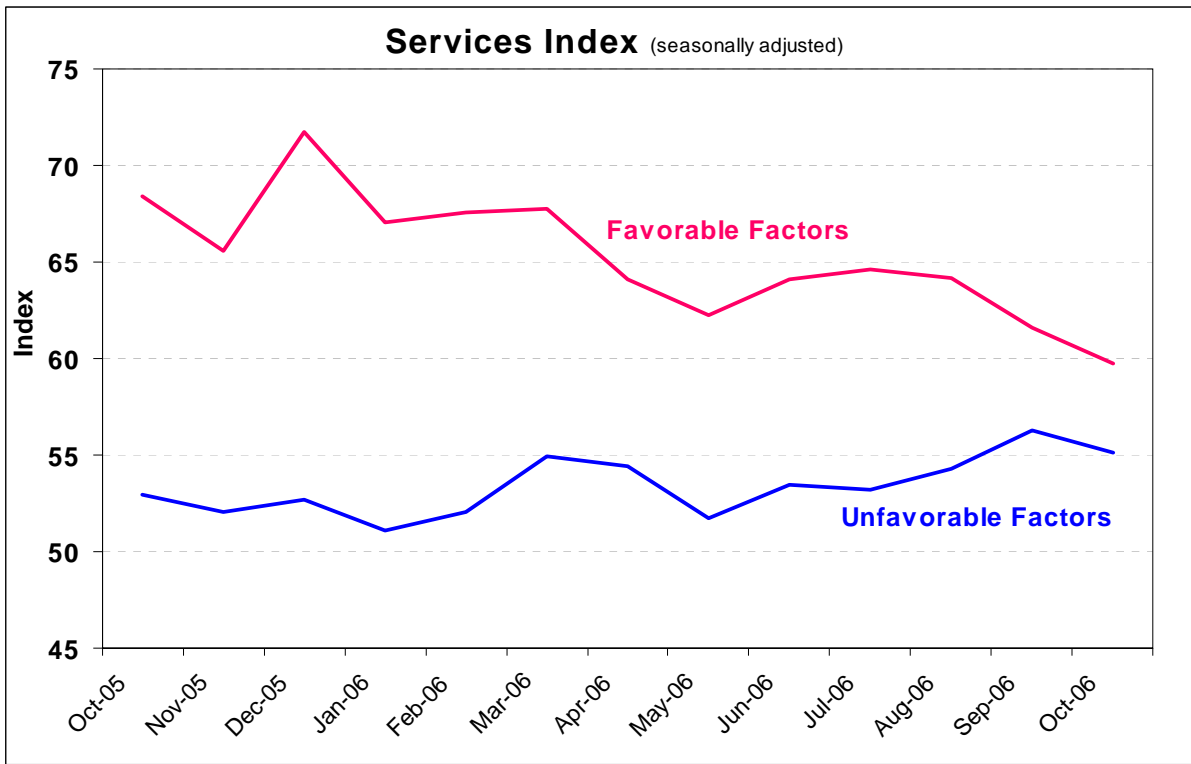


Service Sector

Summing up the service sector, North said, “The index fell 1.4% points, driven by an especially sharp decline in sales of 8.2% points—the second largest decline ever, and the third in four months. One respondent brought the data into sharp relief by saying, ‘...we are definitely seeing the beginnings of a downward trend.’ Another respondent’s comment that ‘people trying to stretch terms is totally out of control’ is reflected by declines in the dollar amounts beyond term and the dollar amounts of customer deductions.”

Service Sector (seasonally adjusted)

	Oct '05	Nov	Dec	Jan '06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Sales	72.1	68.4	77.9	68.1	67.9	68.9	64.3	63.6	67.0	66.0	63.7	65.0	56.8
New credit applications	63.6	58.3	68.0	65.5	65.6	62.2	60.0	57.9	56.4	58.9	61.6	58.3	56.6
Dollar collections	66.1	68.4	65.5	64.8	66.2	69.9	63.5	60.7	64.6	64.4	66.6	59.0	61.9
Amount of credit extended	71.7	67.1	75.6	69.8	70.4	69.9	68.8	66.7	68.5	69.2	64.8	64.2	63.7
Index of favorable factors	68.4	65.6	71.7	67.1	67.5	67.7	64.1	62.2	64.1	64.6	64.1	61.6	59.8
Rejection of credit applications	54.2	51.8	49.4	49.5	52.3	52.4	55.4	53.7	51.5	52.3	53.9	54.2	54.5
Accounts placed for collection	55.7	50.0	51.7	53.2	51.2	54.0	52.1	49.4	56.4	52.4	51.7	55.1	55.7
Disputes	50.8	52.8	49.0	49.0	47.8	54.4	52.3	50.2	49.8	52.3	52.9	55.9	51.3
Dollar amount beyond terms	56.1	54.0	52.5	46.2	49.3	54.7	54.6	47.6	54.1	50.4	54.0	56.7	54.8
Dollar amount of customer deductions	53.3	51.1	51.6	49.9	48.9	53.3	50.9	49.1	50.0	52.5	51.6	54.8	52.8
Filings for bankruptcies	47.7	52.6	61.9	58.8	62.6	60.9	61.2	60.2	59.1	59.3	61.8	61.0	62.0
Index of unfavorable factors	53.0	52.1	52.7	51.1	52.0	54.9	54.4	51.7	53.5	53.2	54.3	56.3	55.2
NACM Service CMI	59.1	57.5	60.3	57.5	58.2	60.1	58.3	55.9	57.7	57.8	58.2	58.4	57.0
ISM Service Business Activity Index	59.2	59.3	61.0	56.8	60.1	60.5	63.0	60.1	57.0	54.8	57.0	52.9	N/A



October 2006 vs. October 2005

Over the past 12 months, the manufacturing index has fallen 1.4%, the services index has fallen 2.1% and the combined index has fallen 1.8%. Six of the 10 components in the combined index have fallen in the past year, led by a plummet in the sales component of 13.8%, as sales fell 12.3% in manufacturing and 15.3% in services. “The only true bright spot was the improvement in bankruptcies, but even that was a one-time distortion caused by a change in the bankruptcy laws,” said North. “Indeed, if the bankruptcy component were removed, the manufacturing, services and combined indexes would have fallen 2.6%, 3.9% and 3.3% instead of only 1.4%, 2.1% and 1.8%,” he continued. “The year over year data confirms what the monthly data suggest: a decent economy that is being steadily eroded by a tightened monetary policy and a dismal housing market.”

Methodology Appendix

The CMI data has been collected and tabulated monthly since February 2002. The index, published since January 2003, is based on a survey of about 500 trade credit managers during the last 10 days of the month, with about equal representation between manufacturing and service sectors. The survey asks respondents to comment on whether they are seeing improvement, deterioration, or no change for various favorable or unfavorable factors. There is representation from all States, except some of the less populated such as Vermont and Idaho.

Factors Making Up the Diffusion Index

As shown in the table below, 10 equally weighted items determine the index. These items are classified into two categories: favorable factors and unfavorable factors. A diffusion index is calculated for each item with the overall CMI being a simple average of the 10 items. Survey responses for each item capture the change—higher, lower, or the same—in the current month compared to the previous month. For positive items, the calculation is:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

For the negative factors, the calculation is:

$$\frac{\text{Number of "lower" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

Thus, greater "lower than a month ago" responses for negative factors signify improvement. Stated differently, a higher index score for an unfavorable factor represents an improvement.

A CMI reading in excess of 50 indicates the economy is expanding; a reading below 50 indicates a declining economy.

Favorable Factors	Why Favorable
Sales	Higher sales are considered more favorable than lower sales.
New credit applications	An increase in credit applications says that demand is greater this month, which represents increased business if credit is extended.
Dollar collections	Higher dollar collections represent improved cash flow for the selling firm and the ability of buying firms to pay.
Amount of credit extended	An increase for this item means business activity is expanding with greater sales via trade credit.
Unfavorable Factors	Why Unfavorable
Rejections of credit applications	Increased rejections of credit applications means more marginal credit worthy customers are seeking trade credit and being denied.
Accounts placed for collection	As this item increases, the selling firm is having trouble collecting accounts, or conversely, there is an increase in buyers not paying.
Disputes	Higher dispute activity often is associated with cash flow problems of customers. They dispute the invoice to defer payment until later.
Dollar amount of receivables beyond terms	As this item becomes higher, it means customers are taking longer to pay.
Dollar amount of customer deductions	Higher deductions often are associated with cash flow problems of customers.
Filings for bankruptcies	Higher bankruptcy filings means cash flow difficulties of customers are increasing.

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